

Trading perfect Risk Budgeting for portfolio returns

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The Markowitz portfolio problem aims to find the portfolio weights that maximize the expected return while minimizing the portfolio volatility. Risk budgeting is a portfolio strategy where each asset contributes a prespecified amount to the aggregate risk of the portfolio. In this work, we propose new optimization models that induce a compromise between these two strategies, and in particular allow to relax the strict risk budget allocation to achieve higher expected portfolio returns.

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